VHEMBE DISTRICT MUNICIPALITY
DC 34




**DRAFT ANNUAL BUDGET**

**2015/16 – 2017/18**

DRAFT ANNUAL BUDGET OF
VHEMBE DISTRICT MUNICIPALITY

**2015/16 TO 2017/18**
**MEDIUM TERM REVENUE AND**
**EXPENDITURE FORECASTS**

**Copies of this document can be viewed:**

- **At the Records section in the District municipal Building**
- **At the local municipalities**

**At: www.vhembe.gov.za**

## 1. Table of Content

## 2. MAYOR'S REPORT

**Council Report presented by His Worship the Executive Mayor of Vhembe District Cllr Matibe TB at the ordinary Council meeting held on Tuesday 31st of March 2015**
Speaker, Councillor Fungheni M.C
Chief Whip, Councillor Dali TS
Members of the Mayoral Committee and all Councillors
Deputy Chairperson of Local House of Traditional Leaders Khosi Vho - Mulima S.E
Mahosi / Tihosi
Administration under the Leadership of Acting Municipal Manager Mme Magwaza
Representatives of various Media Houses
Distinguished community members in the gallery,

We are gathered here some few days after the nation and the people of Vhembe in particular have laid to rest Comrade Collins Chabane the former minister of Public Service and Administration. Comrade Chabane was one of the most decorated, committed, trusted and intelligent son of our district. He played a crucial role during the liberation struggle and continued to lead the people of Limpopo during the period of transition and transformation. With his humility and kindness we learnt that it is important all the times to stay in touch with the ordinary masses of country. Etlela hi ku rhula Munwanati, boti wa hina hi ta ku landzela makwerhu wa hina.

This is our first Council meeting since the arrival of our acting Municipal Manager Mme Magwaza and I would like to take this opportunity to officially welcome you in this important chamber of our district. On behalf of the members of this house I pledge our support to you and your colleagues' .Members of this distinguished house are also expecting a maximum support from your side. In deed together we can we can move Vhembe forward.

Madam Speaker

It is encouraging to note that since the arrival of the Acting Municipal Manager the systems are starting to run in a normal way. I strongly believe that very soon Vhembe District Municipality will reclaim its rightful position of been the district which is known for its stability. This will only happen if all of us can join hands and direct our energy in rebuilding our District municipality. We must isolate and discriminate those who only offer screaming and shouting than suggesting possible and tangible solutions to advance the strategic development agenda our district.

In his "Eighteenth Brumaire of Louis Bonaparte", Marx said :

Men make their own history , but they do not make it as they please , they do not make it under self-selected circumstances , but under the circumstances existing already, given and transmitted from the past .The tradition of all dead generations weighs like a nightmare on the brains of the living .And just as they seen to be occupied with revolutionizing themselves and things ,creating something that did not exist before , precisely in such epochs of revolutionary crisis they anxiously conjure up the spirits of the past to their service ."

Madam Speaker

As they engaged in protracted struggle to make their own history, the masses of our people, who sacrificed everything for the victory of the first strategic objective of the national democratic revolution, achieved this objective under circumstances existing already, given and transmitted from the past.

Our task as the political leadership of this council is to ensure that we change the quality of lives and the living conditions of our communities' .We must walk side by side with our communities in a struggle against poverty, unemployment and inequality. In next few days this council will be conducting public consultations to get the views of the community about the IDP and budget. I call upon members of this house to go back to their respective constituencies and mobilize communities in large numbers to participate in these important

processes. IDP is the only tool that can be used to redefine and navigate the developmental agenda of our communities.

The Department of Water and Sanitation has reopened the process of lodging claims for the communities that were affected by the relocation during the construction of Nandoni Dam .This process will be concluded in 18 months' time and communities must cooperate with the Department of Water and Sanitation to ensure that this programme is achieving its intended objectives.

Madam speaker

Yesterday I have launched arrive alive campaign for Easter Holidays at Tshisaulu. The launch was very successful and I would like also to take this opportunity to extend my words of gratitude to Khosi Vho Makumbane for his support.

Let me reiterate our call to all road users:

- Adhere to the speed limit
- Avoid driving under the influence of alcohol
- Avoid use of cell phones while driving
- Ensure that your vehicle is roadworthy
- Do not cross the road where it is not safe to do so
- Take regular breaks , Buckle up, safety belts save lives

I am calling upon members of this house to lead by example and become ambassadors of government in its efforts of reducing the number of road fatalities in our district. Vhembe District Municipality has also purchased 10 new fire and rescue vehicles with the total cost of 5.2 million Rand. These vehicles will be delivered and allocated to all parts of our district before the 15th of April 2015. We have also allocated R1million to Xigalo Fire station. The allocation will assist in ensuring that the station is fully operational and providing services to the community of Malamulele before the end of this year.

Madam speaker

We all know that the district had cash flow problems at the beginning of the 2015 calendar year. The financial problems were due mainly to the grants that were withheld by the transferring departments. It is important to report to this house that salaries for the next three months have been ring-fenced. All MIG allocations that are due to the district have already been transferred to the account. The situation appeared to be better but it needs to be managed in line with the cost recovery and containment measures resolved by Council. We must make sure that we stabilize the finances of the municipality before the end of this financial year. Municipal Manager must ensure that service providers are paid on time to avoid unnecessary roll over. Officials who delay the payment of service providers must face the consequences of their action.

Let me conclude by wishing you a successful Easter Weekend and submit the following items for consideration.

I thank you
Ndo Livhuwa

**3. RESOLUTIONS**

On 31 March 2015 the Council of Vhembe District Municipality meets at Vhembe Council Chamber to consider the annual draft budget of the municipality for the financial year 2015/16 to 2017/18. The Council approved and adopted the draft budget for public consultation in terms of section 24 of the Municipal Finance Management Act, (Act 56 of 2003)

3.1 The annual budget of the municipality for the financial year 2014/15 and the multi-year and single-year capital appropriations as set out in the following tables:
3.2 Budgeted Financial Performance (revenue and expenditure by standard classification);
3.3 Budgeted Financial Performance (revenue and expenditure by municipal vote);
3.4 Budgeted Financial Performance (revenue by source and expenditure by type); and
3.5 Multi-year and single-year capital appropriations by municipal vote and standard classification and associated funding by source.
3.6 The financial position, cash flow budget, cash-backed reserve/accumulated surplus, asset management and basic service delivery targets are approved as set out in the following tables:
3.7 Budgeted Financial Position as contained in Table 23.
3.8 Budgeted Cash Flows as contained in Table 24;
3.9 Cash backed reserves and accumulated surplus reconciliation as contained in Table 25.
3.10 Asset management as contained in Table 26 and
3.11 Basic service delivery measurement as contained in Table 27.

That Council of Vhembe District Municipality, acting in terms of section 75A of the Local Government: Municipal Systems Act (Act 32 of 2000) approves and adopts with effect from 1 July 2014: the tariffs for the supply of water – as set out in

Annexure A

## 4. BUDGET

### 4.1 EXECUTIVE SUMMARY

The application of sound financial management principles for the compilation of the District's financial plan is essential and critical to ensure that the District remains financially viable and that municipal services are provided sustainably, economically and equitably to all communities.

The District's business and service delivery priorities were reviewed as part of this year's planning and budget process. Where appropriate, funds were transferred from low- to high-priority programmes so as to maintain sound financial stewardship. A critical review was also undertaken of expenditures on non-core and 'nice to have' items. Key areas where savings were realized were on operational administrative expenditure.

National Treasury's MFMA Circular No. 51, 54, 55, 58, 70, 72,74 and 75 were used to guide the compilation of the 2015/16 to 2017/18 MTREF.

The main challenges experienced during the compilation of the 2015/16 MTREF can be summarised as follows:

- The on-going difficulties in the national and local economy;
- Ageing of water and Sanitation Infrastructure network;
- The need to reprioritise projects and expenditure within the existing resource given the cash flow realities;
- Wage increases for municipal staff that continue to exceed consumer inflation, as well as the need to fill critical vacancies;

The following budget principles and guidelines directly informed the compilation of the 2015/16 MTREF:

- The 2014/15 Adjustments Budget priorities and targets, as well as the base line allocations contained in that Adjustments Budget were adopted as the upper limits for the new baselines for the 2015/16 annual budget;
- Intermediate service level standards were used to inform the measurable objectives, targets and backlog eradication goals;
- A reduction has been proposed in the following line items in terms of Instruction number one on cost containment measures as issued by parliament,
    - Special Projects;
    - Consultant Fees;

- Furniture and office equipment;
- Special Events;
- Refreshments and entertainment;
- Ad-hoc travelling; and
- Subsistence, Travelling & Conference fees (national & international)

In view of the aforementioned, the following table is a consolidated overview of the proposed 2015/16 Medium-term Revenue and Expenditure Framework

Total operating revenue has grown by 7% from R842, 908 million to R901, 764 million for the 2015/16 financial year when compared to the 2014/15 Adjustments Budget. For the two outer years, operational revenue will increase by 8% (980,764 million) and 7% (R1, 054,682) respectively.

Total operating expenditure for the 2015/16 financial year has been appropriated at R832,925 million When compared to the 2014/15 Adjustments Budget of R708,827 million operational expenditure has increase by 17% in the 2015/16 budget and increase by 23% to R877,417 million for the 2016/17 budget and increase with 7% to R942,410 for the 2017/18 budget year of the MTREF.

The capital budget of R839, 574 million for 2015/16 increase with 14% compared to the R733, 979 million for 2014/15 Adjustment Budget. The capital budget will be funded from surplus from operational revenue and grants attached to conditional.

### 4.2 OPERATING REVENUE FRAMEWORK

For Vhembe District Municipality to continue improving the quality of services provided to its citizens and local municipalities it needs to generate the required revenue. In these tough economic times strong revenue management is fundamental to the financial sustainability of every municipality. The reality is that we are faced with development backlogs and poverty. The expenditure required to address these challenges will inevitably always exceed available funding; hence difficult choices have to be made in relation to balancing expenditures against realistically anticipated revenues.

The municipality's revenue strategy is built around the following key components:

- National Treasury guidelines
- Growth in the District and continued economic development
- Efficient revenue management

The following table is a summary of the 2015/16 MTREF (classified by main revenue source):

**Table 1 Summary of revenue classified by main revenue source**

| Description | 2011/12 | 2012/13 | 2013/14 | Current Year 2014/15 | | 2015/16 Medium Term Revenue & Expenditure Framework | | |
|---|---|---|---|---|---|---|---|---|
| R thousands | Audited Outcome | Audited Outcome | Audited Outcome | Original Budget | Adjusted Budget | Budget Year 2015/16 | Budget Year +1 2016/17 | Budget Year +2 2017/18 |
| **Financial Performance** | | | | | | | | |
| Property rates | – | – | – | – | – | – | – | – |
| Service charges | 72,431 | 41,392 | 79,200 | 103,701 | 117,069 | 123,976 | 130,795 | 137,727 |
| Investment revenue | 9,350 | 6,200 | 8,439 | 9,693 | 13,301 | 11,507 | 12,140 | 12,783 |
| Transfers recognised - operational | 490,379 | 491,630 | 608,117 | 633,675 | 642,363 | 760,041 | 831,216 | 897,208 |
| Other own revenue | 22,152 | 101,298 | 70,590 | 103,701 | 70,175 | 6,117 | 6,613 | 6,964 |
| **Total Revenue (excluding capital transfers and contributions)** | 594,312 | 640,520 | 766,346 | 850,769 | 842,908 | 901,641 | 980,764 | 1,054,682 |

In line with the formats prescribed by the Municipal Budget and Reporting Regulations, capital transfers and contributions are excluded from the operating statement, as inclusion of these revenue sources would distort the calculation of the operating surplus/deficit.

Operating Grants form a significant percentage of the revenue projections for the District. In the 2015/16 financial year, the operating grants total R760, 041 million and constitute 84% This increases to R831, 216 million and R897, 208 million in the respective financial years of the MTREF. The main portion of the operating grants is the Equitable Share which include portion of RSC Levy Replacement grant, which can be classified as own revenue as well because it replaced the RSC Levies that were abolished in 2006.

**Table 2 Operating Transfer and Grant Receipts**

| Description | 2011/12 | 2012/13 | 2013/14 | Current Year 2014/15 | | 2015/16 Medium Term Revenue & Expenditure Framework | | |
|---|---|---|---|---|---|---|---|---|
| **R thousand** | **Audited Outcome** | **Audited Outcome** | **Audited Outcome** | **Original Budget** | **Adjusted Budget** | **Budget Year 2015/16** | **Budget Year +1 2016/17** | **Budget Year +2 2017/18** |
| **EXPENDITURE:** | | | | | | | | |
| **-** | | | | | | | | |
| **<u>Operating expenditure of Transfers and Grants</u>** | | | | | | | | |
| **Operating Transfers and Grants** | **576,349** | **582,606** | **592,506** | **633,675** | **8,687** | **760,041** | **831,216** | **897,208** |
| National Government: | | | | | | | | |
| Local Government Equitable Share | 431,171 | 476,439 | 524,104 | 592,795 | 592,795 | 681,432 | 748,796 | 818,144 |
| Water Services Operating Subsidy | 140,845 | 99,574 | 62,976 | 35,000 | 42,511 | 72,000 | 80,000 | 76,236 |
| Finance Management | 1,250 | 1,250 | 1,250 | 1,250 | 1,250 | 1,325 | 1,460 | 1,795 |
| Municipal Systems Improvement | 790 | 1,000 | 890 | 934 | 934 | 940 | 960 | 1,033 |
| EPWP Incentive | 2,293 | 4,342 | 3,285 | 3,696 | 3,696 | 4,344 | – | – |
| | 576,349 | 582,606 | 592,506 | 633,675 | 642,362 | 760,041 | 831,216 | 897,208 |

Water Sales is the second largest which contribute 14% or R123,976 million of the total operating revenue Investment revenue is the third largest revenue source totalling 1 per cent or R11,507 million The fourth largest source is 'other revenue' which consists of various items such as income received from discounts, sale of tender documents and sundry income.

It must also be appreciated that the consumer price index, as measured by CPI, is not a good measure of the cost increases of goods and services relevant to municipalities. The basket of goods and services utilised for the calculation of the CPI consist of items such as food, petrol and medical services, whereas the cost drivers of a municipality are informed by items such as the cost of remuneration, petrol, diesel, chemicals, cement etc. The current challenge facing the District is managing the gap between cost drivers and revenue income, as any shortfall must be made up by either operational efficiency gains or service level reductions.

## 4.3 OPERATING EXPENDITURE FRAMEWORK

The District's expenditure framework for the 2015/16 budget and MTREF is informed by the following:

- Balanced budget constraint (operating expenditure should not exceed operating revenue) unless there are existing uncommitted cash-backed reserves to fund any deficit;

The following table is a high level summary of the 2015/16 budget and MTREF (classified per main type of operating expenditure):

**Table 3 Summary of operating expenditure by standard classification item**

| Description | 2011/12 | 2012/13 | 2013/14 | Current Year 2014/15 | | 2015/16 Medium Term Revenue & Expenditure Framework | | |
|---|---|---|---|---|---|---|---|---|
| R thousands | Audited Outcome | Audited Outcome | Audited Outcome | Original Budget | Adjusted Budget | Budget Year 2015/16 | Budget Year +1 2016/17 | Budget Year +2 2017/18 |
| Employee costs | 151,462 | 165,904 | 398,230 | 433,722 | 426,201 | 458,724 | 479,183 | 512,726 |
| Remuneration of councillors | 4,553 | 9,335 | 9,546 | 12,229 | 12,229 | 13,182 | 14,104 | 15,092 |
| Depreciation & asset impairment | 64,646 | 72,902 | 65,000 | 66,000 | 66,000 | 72,000 | 75,456 | 79,682 |
| Materials and bulk purchases | 58,501 | 51,807 | 56,546 | 68,094 | 73,734 | 96,456 | 103,015 | 111,771 |
| Other expenditure | 67,063 | 83,668 | 194,140 | 216,000 | 196,663 | 192,564 | 205,658 | 223,139 |
| **Total Expenditure** | 346,225 | 383,617 | 723,463 | 796,045 | 6774,827 | 832,925 | 877,417 | 942,409 |

The budgeted allocation for employee related costs for the 2015/16 financial year totals R458,724 million, which equals 55% of the total operating expenditure of R832,925 million. Based on circulars 74 & 75, salary increases have been factored into this budget at a percentage increase of 7 per cent for the 2015/16 as the negotiations are still at the process. An annual increase of 7 per cent has been included in the two outer years of the MTREF.

Provision has been made in the budget to include positions in the organogram to ensure that the priorities set out in the IDP and matters raised by the Auditor General are adequately attended to. These positions aim to strengthen accelerate Budget expenditure.

The cost associated with the remuneration of councillors is determined by the Minister of Co- operative Governance and Traditional Affairs in accordance with the Remuneration of Public Office Bearers Act, 1998 (Act 20 of 1998). The most recent proclamation in this regard has been taken into account in compiling the District's budget and allowed for an increase rate of 10%.

Provision for depreciation and asset impairment has been informed by the Municipality's Asset Management Policy. Depreciation is widely considered a proxy for the measurement of the rate asset consumption. Budget appropriations in this regard total 72 million for the 2015/16 financial and equates to 9% of the total operating expenditure. of R 832,925,314 and its funded by Accumulated from appropriation

Other materials comprise of amongst others the purchase of fuel, diesel, materials for maintenance, cleaning materials and chemicals. In line with the District's repairs and maintenance plan this group of expenditure has been prioritised to ensure sustainability of the District's infrastructure.

SUPPORTING DOCUMENTATION

## 5.1 BUDGET PROCESS OVERVIEW

The budget process is an effective process that every local government must undertake to ensure good governance and accountability. The process outlines the current and future direction that the district would follow in order to meet legislative stipulations. The budget process enables the district to optimally involve residents and other stakeholders in the budgeting process.

The preparation process is guided by the following legislative, requirements:

- Municipal Finance Management Act
- Municipal Systems Act and
- Municipal Structures Act

Vhembe District Municipality Budget/Integrated Development Plan (IDP) Review processes for the 20015/16 financial year started with the development and approval in August 2014 of the "Process Plan for the Budget formulation see below schedule

| **FIRST QUARTER** | | **JULY-SEPTEMBER 2014** | |
|---|---|---|---|
| **TASK** | **RESPONSIBLE PERSON** | **PARTICIPANTS** | **TIME-SCHEDULE** |
| • **Tabling at the Council for approval of the IDP and Budget Process Plan in terms of Municipal Systems Act and Section 34 of MFMA**<br>• **Distribution of the Council approved IDP and Budget Process plan to all relevant stakeholders.** | **C.F.O, Finance Portfolio Chairperson and Executive Mayor** | **IDP/budget Steering, Portfolio & Mayoral committees and Council** | **28 July 2014**<br><br>**14/22/28 Aug 2014** |
| **Preparation of the initial Medium Term Financial Forecast and identification of likely level of resources to be available.** | **C.F.O** | **IDP/Budget Steering Committee & Management Committee** | **16 Sep 2014**<br><br>**01/29 Sept 2014** |
| **Determining Proposed Rates & Service Charges** | | | |
| **SECOND QUARTER** | | **OCTOBER-DECEMBER 2014** | |
| **Presenting of Auditor General Report to the Steering Committee** | **C.F.O & Municipal Manager** | **IDP/Budget Steering & Management Committees** | **1 Dec 2014** |
| **Issuing Budget guidelines** | **C.F.O** | **IDP Steering Committee and Management.** | **01/04/10/17/29 Dec 2014** |

| | | | |
|---|---|---|---|
| Departmental Presentation of proposed Budget & Plans<br>Presentation of Budget related Policies | All Departments | IDP Steering committee, Management Committees, and Local Labour Forum | |
| **THIRD QUARTER** | | | **JANUARY- MARCH 2015** |
| The Executive Mayor Tables to the council,<br>• The 2013/14 mid-year performance and budget assessment reports<br>• The 2013/14 Adjustment Budget Report, if one is required. | C.F.O & Portfolio and Executive Mayor | Budget Steering & Management Committees, | 15-30 Jan 2015 |
| Submission of Annual Report and Audited Financial Statements and Audited Financial Statements and other information as required by section 127 of the MFMA | Executive Mayor | Finance Portfolio & Mayoral Committees, Council and Budget Steering committee | 13/16 & 22 Jan 2015<br><br>30 January 2015 |
| • The IDP , Budget Policies and draft SDBIP tabled at all relevant Portfolio Committee and Mayoral prior tabling to the Council<br>• The Executive Mayor tables the Municipality Draft Budget and IDP at the Council. | C.F.O, Municipal Manager & Portfolio and Executive Mayor | IDP/Budget Steering, Management, Mayoral Committees, IDP Rep Forum and Council | 31 Mar 2015 |
| **FOURTH QUARTER** | | | **APRIL-JUNE 2014** |
| Submission of Draft Multi Year Budget to Stakeholders | C.F.O | National & Provincial Treasury and COGTA (DPLGH) | 01 Apr 2015 |
| Public Participation & Consultation Process | Executive Mayor | Public | 01-03 Apr 2015 |
| Consolidation of inputs, Finalization and Submission of Multi Year Budget. | C.F.O, Municipal Manager, Finance Portfolio Chairperson & Executive Mayor | IDP/Budget Steering, Management, Mayoral Committees, IDP Rep Forum and Council | 01-25 May 2015 |
| Approval of the Budget and related Policies by the Council | C.F.O, Municipal Manager, Finance Portfolio Chairperson & Executive Mayor | IDP/Budget Steering, Management, Mayoral Committees, IDP Rep Forum and Council | 29 May 2015 |
| Submission of Approved Multi Year Budget to Stakeholders and placing the Budget on the website as well inviting comments from the public. | C.F.O<br>GM Corporate Services | National & Provincial Treasury and COGTA (DPLGH) | 12 June 2015 |
| • Executive mayor | Executive Mayor | Municipal Manager | 30 Jun 2015 |

| | | | |
|---|---|---|---|
| **approving the SDBIP within 28 days after the approval of the budget and ensuring that all the performance agreements are concluded in accordance with section 57(2) of MSA.**<br>• **Submission of the approved SDBIP and performance agreement to council, MEC for local Government and make it public within 14 days after approval** | | **& Section 57 Managers** | |

### 5.2 OVERVIEW OF ALIGNMENT OF ANNUAL BUDGET WITH IDP

This is the fouth review of the IDP as adopted by Council in May 2014. It started in August 2014. The reviewed IDP was tabled to council for approval on the 31 March 2015.

The District's IDP is its principal strategic planning instrument, which directly guides and informs its planning, budget, management and development actions. This framework is rolled out into objectives, key performance indicators and targets for implementation which directly inform the Service Delivery and Budget Implementation Plan. The Process Plan applicable to the fourth revision cycle included the following key IDP processes and deliverables:

- Considering the community Needs
- Compilation of departmental business plans including key performance indicators and targets
- Financial planning and budget process
- Public Participation through Indaba and IDP Reap Forum
- Compilation of the SDBIP
- The review of the performance management and monitoring processes.

The IDP has been taken into a business and financial planning process leading up to the 2015/16 MTREF, based on the approved 2014/15 MTREF, Mid-year Review and adjustments budget. The business planning process has subsequently been refined in the light of current economic circumstances and the resulting revenue projections.

With the compilation of the 2015/16 MTREF, each department/function had to review the business planning process, including the setting of priorities and targets after reviewing the mid-year and third quarter performance against the 2014/15 Departmental Service Delivery and Budget Implementation Plan. Business planning links back to priority needs and master planning, and essentially informed the detail operating budget appropriations and three-year capital programme.

## 5.3 OVERVIEW OF BUDGET- RELATED POLICIES

The District's budgeting process is guided and governed by relevant legislation, frameworks, strategies and related policies.

### 5.3.1 Review of credit control and debt collection procedures/policies

The Credit Control and Debt Collection Policy as approved by Council and was reviewed during the 2014/15 budget process. While the adopted policy is credible, sustainable, manageable and informed by affordability and value for money there has been a need to review certain components to achieve a higher collection rate. Some of the possible revisions will include the lowering of the credit periods for the down payment of debt.

The 2015/16 MTREF has been prepared on the basis of achieving an average debtors' collection rate on debtors. In addition the collection of debt in excess of 90 days has been prioritised as a pertinent strategy in increasing the District's cash levels.

### 5.3.2 Asset Management Policy

The reviewed asset management policy was adopted by Council in 2013/14. The policy prescribes the accounting and administrative policies and procedures relating to property, plant and equipment. The depreciation and capitalization of assets are dealt with in terms of this policy..

### 5.3.3 Supply Chain Management Policy

The Supply Chain Management Policy was adopted by Council . The policy provides for processes to be followed in the procurement of goods and services. The principles of this policy is to give effect to a fair, equitable, transparent, competitive and cost effective system for the procurement of goods and services, disposing of goods and selection of contractors in the provision of municipal services.

### 5.3.4 Budget and Virement Policy

The Budget and Virement Policy aims to empower senior managers with an efficient financial and budgetary amendment and control system to ensure optimum service delivery within the legislative framework of the MFMA and the District's system of delegations. The Budget and Virement Policy was reviewed during the budget process in 2014/15.

### 5.3.5 Cash Management and Investment Policy

The policy provides for the management of cash and investment of surplus funds. The aim of the policy is to ensure that surplus cash and investments are adequately managed especially the funds set aside for the cash banking of certain reserves. The policy details the minimum cash and cash equivalents required at any point in time and introduce time frames to achieve certain benchmarks. This policy was adopted by Council

### 5.3.6 Fraud and Corruption Prevention Policy

The policy provides for the mitigating, preventing, and reporting any corrupt or fraudulent activities. The policy was adopted by Council.

### 5.3.7 Travel and Subsistence Policy

The objective of this policy is to enforce the promulgated legislation in terms of ad-hoc travel and subsistence allowances, in order to set uniform guidelines for Councillors and officials from Vhembe District Municipality. Furthermore, this policy sets out the basis for the payment of a subsistence and travel allowance for the purposes of such official travelling.

### 5.3.8 Budget policy

The objective of the budget policy is to set out

- The principles which the municipality will follow in preparing each medium term revenue and expenditure framework budget,
- The responsibilities of the executive mayor, the accounting officer, the chief financial officer and other senior managers in compiling the budget
- To establish and maintain procedures to ensure adherence to the Vhembe District Municipality's IDP review and budget processes.

## 5.4 OVERVIEW OF BUDGET ASSUMPTIONS

In preparation their annual 2014/15 budgets and MTREFs the municipalities are expected to pay particular attention on the following issues when compiling their budgets, as they may have far reaching implications on municipal budgets.

- Ensuring that drinking water and waste water management meets the required quality standards at all the times.
- Protecting the poor
- Supporting meaningful local economic development (LED) initiatives that foster micro and small business opportunities and job creation.
- Securing the health of their asset base by increasing spending on repairs and maintenance.
- Expediting spending on capital projects that are funded by conditional grants and
- Ensuring that borrowed funds are invested in revenue generating assets as part of the capital programme.
- Ensuring that the capital budgets reflect consistent efforts to address the backlogs in basic services and the renewal of the infrastructure of existing network services.

Municipalities are expected to pay particular attention on the following issues when compiling their budgets, as they may have far reaching implications on municipal budgets.

- The local response to the global economic crisis.
- Headline inflation forecasts as it is on the bill

| **Fiscal year** | **2014** | **2015** | **2016** | **2017** | **2018** |
|---|---|---|---|---|---|
| | **Actual** | **Estimate** | | **Forecast** | |
| **Real GDP growth** | 2.2 | 1.4 | 2.0 | 2.6 | 3.0 |
| **CPI Inflation** | 5.8 | 5.6 | 4.8 | 5.9 | 5.6 |

- Revision of rates, tariffs and other sundry charges
- Revenue management
- Collection of outstanding debts
- Pricing services correctly
- Under budgeting on repairs and maintenance
- Spending on non-priorities

The minister emphasized on the 2015/16 budget speech that, job creation, reducing of poverty, building infrastructure and expanding the economy is the central priority of the 2015/16 budget. It is therefore expected that municipal budgets should align to these priorities.

## 5.5 OVERVIEW OF BUDGETING FUNDING

The funding of the operating and capital budget per source is as follows:

| | Column A | Column B | |
|---|---|---|---|
| | **2015/16 Allocations** | Forward Estimates | |
| | | **2016/17** | **2017/18** |
| **Type Of allocation** | **Budget** | **Budget** | **Budget** |
| Conditional grant | 777,316,000 | 721,711,000 | 744,344,000 |
| Unconditional Grant | 681,432,000 | 748,796,000 | 818,144,000 |
| Water Sales | 123,976,006 | 130,794,687 | 137,726,805 |
| Interest Received | 11,507,104.00 | 12,139,995 | 12,783,414 |
| Other Income | 6,117,238.51 | 6,613,203 | 6,963,702 |
| **TOTAL BUDGET** | **1,600,348,349** | **1,620,054,884** | **1,719,961,922** |

## 5.6 ALLOCATIONS AND GRANTS MADE BY THE MUNICIPALITY

No allocation will be transferred to Local Municipalities.

## 5.7 COUNCILLOR ALLOWANCES AND EMPLOYEE BENEFITS

Provision is made for an increase in Councilors by 10% and employee benefits Salary was increased 7% as provision due the negotiation which is underway.

## 5.8 MONTHLY CASH FLOW BY SOURCE

See Copy table SA and attached here

## 5.9 MEASURABLE PERFORMANCE OBJECTIVES AND INDICATORS

**(Copy table SA8 and attach here)**

## 5.10 LEGISLATION COMPILATION STATUS

**Disclosure on implementation of MFMA chapter Legislation**

The passing of the MFMA into law was a key milestone that had a fundamental impact on municipal financial management that required transformation in financial discipline and planning processes.
The budget preparation for 20014/15 has met this entire key requirement.
The following are some of the MFMA areas that were complied with

**IDP**

The 2015/16 review process is done and the public consultation will be done as required by legislation see below schedule.

**BUDGET**

This annual budget has been develop taking the MFMA and national treasury requirements into account budget are being tabled and approved with the required legislative timeframes.

**ANNUAL**

The annual report has been developed in terms of the MFMA.

**IN YEAR REPORT**

Reports was done in terms of MFMA and National Treasury and send electronically copy National and Provincial Treasury

**BUDGET AND TREASURY OFFICE**

A budget and treasury office has been established in accordance with the MFMA and national treasury requirements

**SDBIP**

The SDBIP document is at preparation stage taking the MFMA requirements into account.

**AUDIT COMMITTEE**

An audit committee has been established and considers the budget

Operating grants and subsidies represent the bulk of the revenue sources of the VDM. With the abolishment of RSC levies, the VDM is totally dependent on National and Provincial grants and subsidies as revenue source.

## 5.11 SUMMARY OF DETAILED CAPITAL PLAN

| Description | Allocation | % |
|---|---|---|
| Capital Outlay | 30,359,424.00 | 4% |
| LED Project | 11,483,497.00 | 1% |
| Water Projects and Sanitation | 797,731,314.00 | 95% |
| TOTAL | 839,574,235.00 | |

## 5.12 BUDGET FINANCIAL STATEMENTS

**See schedule A6**

## 5.13 OTHER SUPPORTING DOCUMENTS

**See Schedule SA1 to SA7**

## 5.14 MUNICIPAL MANAGER'S QUALITY CERTIFICATION

Municipal Manager Signed off the budget as per attached certificate.